

*Public Lecture Series*

# The Purpose of the Corporation

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Corporate Governance  
Communique



**Lagos Business School**



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# Introduction

Corporations have, for most of their history, been organised around two things: power and profit. Power, in the sense of control over resources, and profit, in the sense of returns to owners (shareholders). Traditional models of corporate governance have been built on this foundation. However, these two pillars alone do not provide a complete and adequate account of what effective governance requires. This includes questions as to why the corporation exists, who it serves, and what obligations flow from operating within social and ecological systems on which it depends but over which it has no sovereign claim. The argument advanced in this lecture is that purpose is the third and essential, the absence of which results in material governance consequences.

What is the purpose of the corporation? This is a deceptively simple question. One might assume that, given the long history of corporations, a definitive answer should already exist. However, the answer continues to evolve alongside societal change, market shifts, ecological conditions, and technological advancement. The lecture examined the limitations of the dominant model of shareholder primacy, diagnosed its limitations, and introduced a framework for understanding multi-stakeholder and multi-capital value creation.

Real costs attach to corporations that have no account of purpose. Communities in the Niger Delta live with contaminated water because oil companies measured their purpose in profit extracted, not harm avoided. Garment workers died in the 2013 Rana Plaza collapse in Bangladesh because the brands that commissioned their labour had defined purpose as cost reduction. Directors in multiple jurisdictions now face personal liability for failing to price climate risk into board decisions. Where corporations do not choose their purpose deliberately, courts, regulators, and crises choose it for them.

## ⚠ Real Costs of No Purpose

Communities in the Niger Delta live with contaminated water because oil companies measured their purpose in profit extracted, not harm avoided. Garment workers died in the 2013 Rana Plaza collapse because brands defined purpose as cost reduction.

## The three pillars of Corporate Governance



### POWER

Control over resources and decision-making authority



### PROFIT

Returns to shareholders and financial performance



### PURPOSE

The essential third pillar for effective governance

# The Dominant Model: Shareholder Primacy

## Milton Friedman's thesis and its influence on corporate governance

The shareholder primacy thesis, most prominently articulated by Milton Friedman, asserts that the primary social responsibility of business is to increase profits. Under this framework, corporations are viewed as artificial entities owned by shareholders, and corporate executives act as agents whose duty is to manage the company in accordance with shareholders' interests. These interests are typically defined in terms of profit maximisation within the bounds of law. Friedman further argued that the use of corporate resources for broader social objectives amounts to an inappropriate diversion of shareholders' funds, likening it to taxation without representation.

Over time, this perspective became deeply entrenched. It shaped business education, informed legal doctrines, and influenced the behaviour of capital markets. Shareholder value maximisation became the dominant metric for evaluating corporate performance, often to the exclusion of other considerations.

### Problems with the Model of Shareholder Primacy

Despite its influence, the shareholder primacy model rests on an unproven empirical assumption: that maximising shareholder value necessarily produces optimal outcomes for society. Corporate failures, including Enron (2001), the collapse of Lehman Brothers (2008), and Nigeria's banking crisis of 2009, demonstrated otherwise. Short-term, profit-driven decisions, particularly excessive risk-taking, produced systemic failures that harmed shareholders, stakeholders, and the broader economy alike. Companies that externalise environmental costs shift those losses onto communities and future generations.

Secondly, the model misrepresents how value is produced. Corporations do not generate value in isolation; value is co-created through complex, interdependent relationships among employees, suppliers, customers, host communities, regulators, and the state. Treating those relationships as costs to be minimised rather than as sources of value damages them over time and reduces the returns the model was designed to protect.

Thirdly, the model conflates outcome with purpose. Profit, while essential, is an indicator of performance, not the fundamental purpose of the corporation. It signals that a company is delivering value others are willing to pay for, but it does not define why the company exists. To elevate profit to the level of purpose is to misunderstand its role within the broader governance framework.

### Three critical limitations of the dominant model



#### UNPROVEN ASSUMPTION

Maximising shareholder value does not necessarily produce optimal societal outcomes



#### VALUE CO-CREATION

Misunderstanding how value is produced through interdependent relationships



#### OUTCOME vs PURPOSE

Conflating profit as indicator with profit as fundamental purpose

## Emerging Alternatives to the Shareholder Primacy Model

Stakeholder theory, benefit corporations, and new governance models

In response to these shortcomings, alternative frameworks have emerged. Edward Freeman's stakeholder theory advocates for a more balanced consideration of the interests of all stakeholders. In the United States, benefit corporations have been introduced as a legal form requiring directors to consider stakeholder interests. In France, the *Entreprise à Mission* model, introduced by the 2019 PACTE Law, permits companies to inscribe a social or environmental mission into their constitutional documents, with a corresponding duty to pursue it. In South Africa, governance frameworks have drawn upon the philosophy of ubuntu, which emphasises interconnectedness and collective well-being, expressed in the Nguni formulation *I am because we are (umuntu ngumuntu ngabantu)*

On this account, a corporation's legitimacy is bound up with the health of the communities and ecosystems that sustain it, rather than being derived solely from returns to shareholders.

Despite their promise, these alternatives are not without limitations. Stakeholder theory has been criticised for lacking a decision principle when stakeholder interests conflict. Benefit corporations, while conceptually significant, account for a small fraction of total incorporated entities. Consequently, the gap between principle and practice remains wide. The purpose matrix, introduced in this lecture, is designed to be usable: precise enough to guide decisions, and broad enough to capture the full range of value at stake.

### Stakeholder Theory

Edward Freeman

Advocates for balanced consideration of all stakeholders' interests, moving beyond shareholder primacy to include employees, suppliers, customers, and communities.

### Benefit Corporations

United States

Legal form requiring directors to consider stakeholder interests, with mandatory reporting on social and environmental performance.



### Ubuntu Philosophy in Corporate Governance

In South Africa, governance frameworks have drawn upon the philosophy of **ubuntu**, which emphasises interconnectedness and collective well-being, expressed in the Nguni formulation **"I am because we are" (umuntu ngumuntu ngabantu)**. This approach recognises that a corporation's legitimacy is bound up with the health of the communities and ecosystems that sustain it.

# The Four Layers of Corporate Purpose

## Understanding purpose through interconnected dimensions

Corporate purpose can be understood through four interconnected layers. The first is the stated purpose, which is the formal legal expression of a company's objectives, typically contained in its constitutional documents. The second is the generic purpose, which reflects the underlying economic rationale for the corporation. The third is the expected purpose, which represents societal expectations of responsible corporate conduct. The fourth is the refined purpose, which captures how corporations adapt their purpose in response to evolving environmental, social, and governance considerations. These layers must be considered collectively. A corporation's purpose cannot be fully understood by reference to any single layer.



### Stated Purpose

The concept of stated purpose is rooted in legal doctrine, as illustrated by the case of *Ashbury Railway Carriage v Riche (1875)*, which established the principle that companies must act within their stated objects. This principle has been reflected in various legal frameworks, including the Companies and Allied Matters Act 2020 in Nigeria and the Companies Act 2006 in the United Kingdom. While modern developments have relaxed the rigidity of this doctrine, the stated purpose remains a foundational element, with greater emphasis now placed on directors' duties, shareholder rights, and regulatory oversight.



### Generic Purpose

The generic purpose question asks what economic rationale the corporate form is understood to serve. Professor Colin Mayer's formulation, drawn from his piece on 'Principles for Purposeful Business' (2019), holds that a company's purpose is to produce profitable solutions to the problems of people and planet, without profiting from producing those problems. This perspective aligns with broader interpretations of directors' duties under corporate law, which extend beyond narrow profit considerations.



### Expected Purpose

The expected purpose layer reflects societal expectations of corporate behaviour. The King Reports on Corporate Governance in South Africa represent a leading example of this evolution, culminating in a framework that emphasises outcome-based governance. Under this approach, organisations are required not only to apply governance principles but to demonstrate tangible outcomes in ethical, social, and financial terms. King V's "apply, explain and provide" standard goes further: a company must demonstrate that its governance structures produced the outcomes they were designed to produce, with narrative evidence and data to support that claim. This shifts the accountability question from process to result (or outcomes). This model continues to influence governance practices beyond South Africa, including in Nigeria.

### Refined Purpose

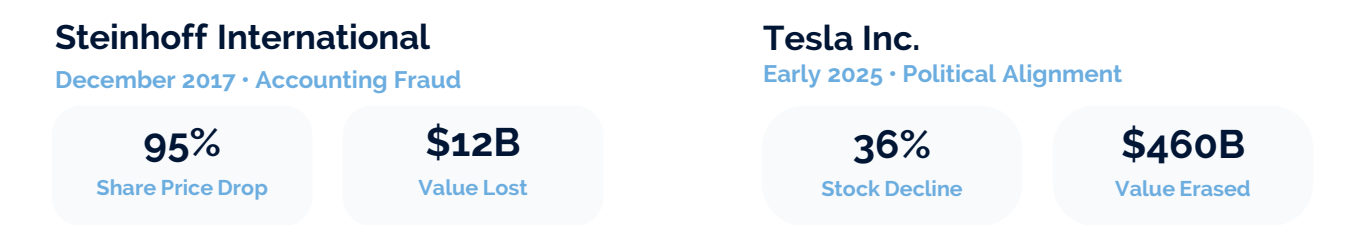
**How corporations adapt** their purpose in response to evolving environmental, social, and governance considerations. These layers must be considered collectively.

# Compliance vs Alignment

## Governance on paper vs. governance in practice

Corporate failures have demonstrated that formal compliance alone is insufficient. Steinhoff International operated with full governance infrastructure in 2017. Steinhoff had functioning board committees, external auditors, and full listing compliance. Its share price fell by over 95% in December 2017 when accounting fraud surfaced, wiping more than US\$12 billion in shareholder value within days; the company entered liquidation in 2023. What the Steinhoff case confirmed, as Enron had in 2001, is that governance on paper and governance in practice are not the same thing.

Similarly, markets respond when a corporation's conduct diverges from its stated purpose. Tesla's stock lost over 36% of its value in the first months of 2025, erasing approximately US\$460 billion in shareholder value, after Elon Musk, the CEO, whose political alignment with the Trump administration alienated customers across key markets, triggered widespread consumer boycotts and drew criticism from institutional investors over board accountability.



# Outcome-Based Governance

## Governance on paper vs. governance in practice

Outcomes-based governance, as articulated in the King Reports (most recently, the King V Report on Corporate Governance in South Africa, 2025) and developed in Mervyn King and Fabian Ajogwu's work, *Outcomes-Based Governance: The New Model for Governance (2020)*, asks what results governance should produce and works backwards to identify the structures required. It focuses on achieving measurable results.

King V identifies four governance outcomes: ethical culture; performance and value creation; conformance and prudent control; and legitimacy. These outcomes are grounded in a six-capital framework: financial, manufactured, intellectual, human, social and relationship, and natural capital. The six capitals are interdependent. Depleted natural capital eventually reduces financial capital; eroded social capital costs more to rebuild than to maintain. A corporation that creates financial value while destroying other forms of value is not creating value in any complete and meaningful sense.

## The Six Interdependent Capitals



# Refined Purpose and Purpose-Washing

## Authenticity vs. performance in corporate purpose

Refined purpose describes how corporations recalibrate in response to evolving societal expectations, particularly in relation to sustainability demands and ESG (Environmental, Social, and Governance) considerations. It requires authenticity. The critical question is whether that recalibration is substantive or cosmetic.

"Purpose-washing," defined as the deployment of purpose language for reputational benefit without corresponding changes in governance or operations, degrades the concept. It becomes harder to distinguish genuine commitment from performance, and the normative pressure for real change weakens.

Authentic refined purpose must be visible in governance structures, operational decisions, and organisational culture, not deployed as cover for unchanged conduct. An example is the Volkswagen scandal. Between 2008 and 2015, Volkswagen marketed its diesel vehicles on environmental credentials while concealing software that disabled emissions controls during testing. Roughly eleven million vehicles worldwide were fitted with these defeat devices. The scandal that followed cost the company over US\$38 billion in fines, penalties, and settlements across multiple jurisdictions, and wiped more than €32 billion from its share value within a week of the fraud being exposed.

Similarly, a study by Professors Lucian A. Bebchuk and Roberto Tallarita of Harvard Law School, titled 'The Illusory Promise of Stakeholder Governance' (Cornell Law Review, 2020), found that the 181 chief executives who signed the Business Roundtable's 2019 stakeholder capitalism declaration made no subsequent changes to capital allocation, incentive structures, or governance arrangements. Their analysis characterised the statement as a public relations exercise.

Furthermore, genuine purpose alignment is observable in ownership structure and operating model. In September 2022, Patagonia's founder, Yvon Chouinard, transferred the entirety of the company's ownership to two newly created entities: the Patagonia Purpose Trust, which holds all voting stock, and the Holdfast Collective, a nonprofit to which all profits not reinvested in the business are distributed to fight climate change. The company, valued at approximately US\$3 billion, now has no conventional shareholders. Every governance and capital allocation decision flows from that structural commitment.

M-Pesa, launched by Safaricom in Kenya in 2007, is a second instance. Financial inclusion was built into its operating model from inception, not as a corporate social responsibility add-on, but as the core product rationale. By 2021, Kenya's financial inclusion rate had risen from 26% to 84%, with M-Pesa processing over one billion transactions monthly across seven countries and helping lift an estimated 2% of Kenyan households out of poverty.

**US\$38B**

Volkswagen penalties

**181**

CEOs in BRT declaration

**US\$3B**

Patagonia valuation

**84%**

Kenya financial inclusion

# The Board as Multi-Capital Steward

## King V Principle 3: Directing Purpose & Integrated Thinking

The board serves as the central custodian of corporate purpose. That is, it holds primary responsibility for defining and maintaining corporate purpose. Principle 3 of King V sets out the scope: the board must direct the setting of organisational purpose, apply integrated thinking across all six capitals, and oversee continuous assessment of the corporation's negative impacts on the economic, social, and environmental context. Directors are personally accountable for those outcomes, not merely for the processes through which they are pursued.

This is why the board is designated as a "Multi-Capital Steward." The multi-capital stewardship model requires boards to govern across six capitals: financial, manufactured, intellectual, human, social and relationship, and natural. That scope requires cognitive diversity on the board itself. Directors with working knowledge of ecological systems, human capital, and long-term non-financial value creation are crucial in this framework.

## Reporting as the Governance Tool

Reporting is the mechanism through which purpose accountability is made visible. King V's "prove the outcome" standard requires organisations to go beyond describing governance activity and demonstrate what changed as a result: which decisions were made, what trade-offs were accepted, and how outcomes across all six capitals were affected. Reports that record stakeholder engagement without showing its effect on decisions confuse activity with governance.

In this regard, the Ajogwu Framework for Governance (the AFG Model) positions ethics as the foundational multiplier across all governance components, expressed through the equation below.

This relationship is expressed through the governance equation:

$$S = E \times (BG + CC + PDG + OBCG + RL + AC)$$

Where **S** represents Sustainability, **E** represents Ethics, **BG** is Behavioural Governance, **CC** is Conscious Capitalism, **PDG** is Purpose-Driven Governance, **OBCG** is Outcome-Based Corporate Governance, **RL** is Rule of Law, and **AC** is Anti-Corruption.

The implication of this formulation is significant. Ethics operates as a multiplier across all governance components. Where ethics is absent (or equals zero), the entire governance framework collapses, regardless of the strength of the other components. This reinforces the central proposition that an ethical foundation is indispensable to sustainable corporate governance.

## Key Accountability

Directors are **personally accountable for outcomes**, not merely for the processes through which they are pursued. This is why the board is designated as a "Multi-Capital Steward."

# The Purpose Matrix

## Mapping stakeholders, capital forms, and value creation

The purpose matrix, an original tool introduced in the lecture, has two dimensions. The first maps stakeholders: shareholders, people (employees, customers, suppliers, communities), and the planet. The second maps forms of capital: financial, social, and natural. Crossing the two produces a 3x3 grid in which each cell represents a specific value relationship. A corporation that generates shareholder returns while depleting natural capital is positive in one cell and negative in another. The matrix makes that trade-off visible rather than allowing it to be obscured by aggregate financial performance.

| Stakeholder                                                                                       | Financial Capital | Social Capital | Natural Capital |
|---------------------------------------------------------------------------------------------------|-------------------|----------------|-----------------|
| <br>Shareholders | A                 | B              | C               |
| <br>People       | D                 | E              | F               |
| <br>Planet       | G                 | H              | I               |

## Total Purpose Value (TPV) Formula

Within this framework, corporate purpose is further translated into a measurable construct through the concept of Total Purpose Value (TPV) (or "the Purpose Formula"), expressed as:

$$P = (S \times F) + (Pp \times Sm) + (Pl \times N)$$

### **P = Total Purpose Value**

Overall value created across all dimensions

### **S = Shareholder Value**

Financial returns to investors

### **F = Fairness Factor**

Equity in value distribution

### **Pp = People Value**

Social impact on stakeholders

### **Sm = Social Multiplier**

Amplification of social impact

### **Pl = Planet Value**

Environmental sustainability

### **N = Natural Multiplier**

Ecological impact factor

This formulation captures the essence of multi-capital value creation by integrating financial performance with social and environmental impact. It ensures that corporate success is not assessed solely on profitability, but on the extent to which value is created equitably and sustainably across all stakeholder groups.

## *Purpose as the North Star*

Purpose serves as the guiding principle for corporate strategy and operations. It provides a consistent reference point for decision-making, resource allocation, and organisational behaviour, ensuring alignment across all levels of the organisation.

## Towards a Coherent Account of Corporate Purpose

A coherent account of corporate purpose requires a commitment to sustainable, multi-generational value creation. Purpose must be understood not as a symbolic or aspirational statement, but as a measurable governance commitment. The Purpose Matrix and Formula provide a framework through which purpose can be evaluated, tracked, and verified over time. What is not measured cannot be effectively managed.

## Conclusion

The question of corporate purpose is not abstract. It determines who benefits from corporate activity, who bears its costs, and across what time horizon value is measured. Directors, investors, regulators, and citizens each have a stake in how that question is answered, and in whether the answer holds.

“*The purpose of the corporation is to create sustainable, multi-generational value by producing profitable solutions to the problems of people and the planet, while respecting the dignity of all stakeholders and contributing to the common good.*”

— **Professor Fabian Ajogwu, OFR, SAN**

The Purpose of the Corporation (2026)



### Measurable Commitment

Purpose must be understood not as a symbolic statement, but as a measurable governance commitment.



### Multi-Capital Value

A corporation that creates financial value while destroying other forms of value is not creating value in any complete sense.



### Multi-Generational

A coherent account requires commitment to sustainable, multi-generational value creation.



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